



DEFENSE LOGISTICS AGENCY
THE DEFENSE CONTRACT MANAGEMENT COMMAND
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060-6221

JAN 28 1997

IN REPLY
REFER TO AQOC

**MEMORANDUM FOR COMMANDERS, DEFENSE CONTRACT MANAGEMENT
DISTRICTS**

SUBJECT: Cost Accounting Standards (CAS)

The attached Policy Memorandum No. 97-07, Cost Accounting Standards (CAS), is an effort by the newly established Overhead Center to support the field in areas related to overhead. By removing conflicts in the existing guidance and eliminating or reducing the requirements for management reviews, the new policy is designed to facilitate the Administrative Contracting Officer's (ACO's) ability to disposition audit reports related to CAS.

This new policy presents an opportunity to reduce the backlog of 679 open CAS related audits, to close audits having no material cost impact, and to focus effort on those cases that have the potential of having significant dollar impacts.

Some areas of the new policy represent significant changes from the previous policy, such as the initial review for materiality and the requirements to disposition an immaterial audit report. This new guidance may require performing analysis where we have historically relied on the Defense Contract Audit Agency. The Overhead Center is available to provide interpretation and support related to this new policy, including hands-on assistance.

The Overhead Center point of contact for CAS is Mr. David Guinasso, Contractor Payment & Business Practices Team, (703) 767-2354, DSN 427-2354 or e-mail: david_guinasso@hq.dla.mil.


JILL E. PETTIBONE
Executive Director
Contract Management Policy

Attachment



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**MEMORANDUM FOR COMMANDERS, DEFENSE CONTRACT MANAGEMENT
DISTRICTS**

SUBJECT: DCMC Memorandum No.97-07, Cost Accounting Standards (CAS) (POLICY)

This is a POLICY memorandum. It expires when content is included in DLAD 5000.4, Contract Management (One Book), not to exceed one year. Target Audience: All DCMC personnel.

As a result of the initial site visits for the special project identified in AQOK memorandum dated June 10, 1996, subject: "Cost Accounting Standards Audit Reports," a number of clarifications and changes have been identified to improve the process for disposition of audits related to CAS. The new coverage is effective immediately and will be included in the section on CAS in DLAD 5000.4, Part IX, Chapter 5.

Negotiation Review, Approval Authority, and Documentation. Negotiation of cost impacts for noncompliance with CAS, changes to disclosed or established accounting practices, or for new or modified standards are subject to the review and approval levels established in DLAD 5000.4, Part V, Chapter 5, Price Negotiation. When an audit report for noncompliance is dispositioned by the Administrative Contracting Officer (ACO) with a determination of compliance or that the impact is immaterial, a disposition memorandum subject to the review and approval authority established in DLAD 5000.4, Part V, Chapter 5, paragraph C.4, shall be prepared. Where the audit report does not indicate a value, the ACO should consult with the auditor on the potential value of noncompliance cited in the audit report in determining the appropriate level of approval authority.

HQ DCMC Review. The ACO may request a review by HQ DCMC (AQOC) through the District CAS specialist for significant or controversial issues, generally limited to those issues that involve substantial sums of money or are likely to be precedent setting.

Determination of Materiality. Prior to requesting a detailed cost impact for either a change to the contractor's accounting practices or as a result of a noncompliance, the ACO, with assistance from appropriate technical specialists, should make a determination on the materiality of costs involved, taking into consideration the criteria set forth in FAR, Appendix B, CFR 9903.305. For a change to a contractor's accounting practice, the determination of immateriality completes the business function. When the ACO has determined that there is no material increase in costs as a result of a noncompliance, the ACO shall request the contractor

correct the noncompliance. If the contractor refuses to take corrective action, the ACO should notify the contractor in writing that the contractor is in noncompliance, that corrective action should be taken, and if such noncompliance results in materially increased costs to the Government, the provisions of the applicable CAS clause will be enforced, as prescribed by FAR 30.602-2(d)(3).

If there are any questions concerning this memorandum, please contact Mr. David Guinasso, Contractor Payment & Business Practices Team, (703) 767-2354, DSN 427-2354 or e-mail: david_guinasso@hq.dla.mil.

A handwritten signature in black ink, appearing to read "Robert W. Drewes", with a stylized, cursive script.

ROBERT W. DREWES
Major General, USAF
Commander